

## **ASSESSMENT OF NEW GOVERNMENT INTERESTS IN MUNICIPAL HEATING AND NEW LEADERSHIP IN GOVERNMENT AND PARLIAMENT**

The Ukrainian government, in general, and the Ministry of Housing and Communal Services of Ukraine (MHCSU), in particular, are showing their concerns about the state of the communal infrastructure (including the heat supply system), imperfect heat tariff policy, continuously increasing deteriorated and networks in dangerous state as well as growing energy consumption for end-use of heat. The budget system of the heat supply support in the communal sector is ineffective as well. Thus establishing of the system of state regulation of heat suppliers' monopoly status is recognized a top-priority direction for DH development. This system covers implementation of effective tariff policy, determination of license conditions, and supervision of compliance as well as protection of consumers' rights.

Legal-economic relations reformation for meeting heating demands in the communal sector as well as conditions creation for efficient development of district heating as the technical system based on energy efficiency are considered by the Ukrainian government in the light of the municipal housing economy reformation.

The MHCSU relies upon inextricable connection of the heat supply reformation with energy efficiency opportunities in residential buildings. Reduced heat consumption by these buildings should serve as the base of the forecast of heat and hot water demand for a long-term perspective. It is crucial to start with the issue of improvement of heat consumption efficiency in residential buildings to ensure effective disbursement of funds for the communal heat supply development.

The governmental efforts to abandon the insufficiently regulated and unsystematic financing, which stimulates mismanagement, of utility companies in the communal energy sector in view of distorted tariff policy resulted in development of new edition of the housing and communal sector reformation program (hereinafter referred to as the "Program").

The Program got through a range of grounded discussions and was generally supported by the National Academy of Science, Association of Ukrainian Cities and public organizations. This Program was reviewed and approved by the Interagency Housing and Communal Sector Reformation Commission consisting of ministry representatives, people's deputies of Ukraine, public organizations, etc.

As distinct from today's functional program, its new edition highlights the reform from the citizen's point of view and the perception of events occurring in the sector that plays an extremely important role for appropriate living conditions ensuring in the society. According to the new Program, housing and communal sector reformation shall become an integral part of the Ukrainian housing policy.

As to the measures related to heat supply system, the Program foresees development of the system state regulation of natural monopolies in the communal service market that include establishing an independent regulator, structuring tariffs to reflect full costs, creating incentives for energy efficiency, providing social support to replace or offset the current heat subsidies, and licensing all district heating enterprises and sparing them from functions of population social protection.

For the purpose of the Program implementation, the MHCSU prepared a range of regulatory legal acts and submitted them for review by ministries: concept of state regulation development in the communal service market, including heat supply, Draft Law of Ukraine on Specific of Heat Supply Object Rent and Concession, Draft Decree of the Cabinet of Ministers on Residential Fund Equipping with Water and Heat Meters and Regulators, etc.

On May 7, 2008 the Cabinet of Ministers issued Decree number 465 that established a Task Force to develop a National Municipal Heating Strategy (hereinafter referred to as the Task Force) for reforming the provision of heat to the communal service sector. The Task Force has the status of an advisory board to the Cabinet of Ministers and is comprised of governmental officials, representatives of international donor organizations, academic institutions and civic organizations.

Task Force responsibilities include setting the main directions for the development of district heating in Ukraine, coordinating reform activities among the central organs of power, monitoring the implementation of the National Municipal Heating Strategy, and recommending policy and legal documents for adoption by the Cabinet of Ministers of Ukraine. The Task Force meets at least twice a year to adopt decisions and recommendations in the form of protocols signed by the Task Force head. A Technical Working Group will be organized to support the Task Force to carry out its assigned responsibilities.

On 23 June, 2008 the first meeting of the National Municipal Heating Strategy Task Force was held under guidance of V.Gayduk, the Head of the group of advisors to Prime Minister. At the meeting the decision was made to establish experts groups on the following issues under the Task Force:

- Preparation of regional and state programs of technical modernization in the communal heating sector;
- Improvement of energy efficiency of residential and administrative buildings;
- Development of state regulation in the communal service market.

Provisions on creation of expert groups as well as proposed and appointed heads of respective expert groups were approved.

To create more solid financial basis for reforms, the Cabinet of Ministers of Ukraine approved Decree No. 225 of March 19, 2008 “On Approval of the Procedure of State Budget Funds Usage for Implementation of the National Program of Municipal Housing Economy Reformation and Development and Credit Easing for These Purposes”.

This Decree establishes the procedure of 2008 state funds use to support regions and set their use mechanisms. For the first time funds are allocated for easing of credits provided for municipal housing economy projects implementation through partial remuneration of credit use rate. The chief administrator of budget funds is the MHCSU.

Budget funds shall be channeled for:

- Procurement of basic materials and equipment for construction and installation works aimed to upgrade the DH system of residential buildings (approximately \$ 77.2 million);
- Easing of credits for implementation of investment projects in municipal housing economy through partial remuneration of credit use rate, including credits attracted by housing and utility enterprises for implementation of projects aimed to upgrade the DH systems (approximately USD 9.7 million).

Moreover, specific funds are allocated to offset accounts payable arising under “Repair and Reconstruction of DH Networks and Boiler Houses” budget programs.

Governmental interest in successful heat supply system reformation and reform outstanding problems resolving with the help of international donors was expressed by the Minister of Housing and Communal Services of Ukraine O. Kucherenko at the meeting with US Ambassador William Taylor on June 10, 2008. Mr. Kucherenko considers development of a National Municipal Heating Strategy of Ukraine to be the same priority as safeguarding national security. According to him, MHCSU expects from international community representatives, first of all, further support to reformation initiatives and sector development – establishment of an independent regulator, service market de-monopolization, energy efficiency ideology and practice promotion, independent assessment of options of “quick” solution of gas price growing problem due to shift from the district heating to electrical and local heating, etc. It is required to provide methodological support for organization of activities that ensure citizens' interest in energy efficiency and direct participation of housing owners in proper re-equipment and thermal modernization.

Among numerous barriers to successful sector reformation MHCSU considers social and political problems related to absence of population's belief that reformation including heat tariff increase would improve heat supply service quality. To remove such a barrier, it is necessary to identify effective publicity and awareness-raising measures for ensuring society's understanding of reformation urgency and other options' absence despite financial burden strengthening.

To remove such a barrier, effective publicity and awareness-raising measures aimed to ensure society understanding of reformation urgency and absence of other options, despite financial burden strengthening, have to be identified. In addition, it is necessary to improve existing adaptation and compensation measures and develop the new ones, for example, partially redirect subsidies to population and subventions to heat suppliers so that they can improve energy efficiency of heat production and consumption. Such a policy will lead to reduction of heat consumption costs of households and slow-down tariff growth rates in the context of energy price increase. In future this will reduce the financial burden on the state budget.

Draft laws and regulations on heat supply system reformation, including concepts of required state Program testify that the governmental attempts to resolve the problem on the complex level and foresees measures within four key groups, namely: development and improvement of the reform's legal and regulatory provision, sector reorganization and restructuring, effective technical policy and harmonization of economic relations of all stakeholders. At the same time, a lot of targets and tasks that require grounded prioritizing are formulated. Many of tasks are mutually causal and cannot be resolved at the same time. Sections that would define top-priority tasks and results for the next two years are advisable to be included in draft program documents as well as sources and resources required for their implementation need to be outlined.